



Museum of Art Revenue Review Audit Report

Issued by the
Internal Audit Office
March 27, 2009

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its Museum of Art Revenue Review Audit. We have identified internal control breakdowns in the allocation, review, monitoring, and reconciliation of Museum of Art revenues. Based on the results of the audit, seven findings were identified to indicate internal control weaknesses within the operations of handling Museum of Art revenues. All seven of these findings are considered significant in nature.

Listed below is a summary of the seven (7) significant findings identified in this report.

1. The El Paso Museum of Art is handling financial transactions for the El Paso Museum of Art Foundation.
2. There is a segregation of duties issue with a former Senior Secretary having custody of the Museum bank deposits and having access to the Museum Revenue Reports. The former Senior Secretary also had access to the Museum of Art Director's computer.
3. There is no reconciliation process in place to identify if revenues are deposited and accurately allocated to the proper General Ledger account.
4. Art Class revenues are entered into two separate databases, both of which were found to be inaccurate. A reconciliation process is not performed between the databases and what is actually deposited.
5. Membership revenues are entered into two separate databases, both of which were found to be inaccurate. A reconciliation process is not performed between the databases and what is actually deposited.
6. The El Paso Museum of Art does not maintain adequate accounting records for revenue generated by 3rd Thursdays' events. The Internal Audit Office could not verify \$2,412.00 in revenues that were reported by the El Paso Museum of Art for 3rd Thursdays' events.
7. The El Paso Museum of Art Petty Cash Fund is not being administered in accordance with City of El Paso's Petty Cash Manual.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

BACKGROUND

The El Paso Museum of Art is the fine arts museum of the City of El Paso and a major cultural and educational resource for the surrounding region. The Museum houses a permanent collection of over 5,000 works of art. In addition to displaying works from its holdings, the Museum presents a diverse schedule of temporary exhibitions, films, lectures, concerts, and other educational programs for the public. The El Paso Museum of Art has the following revenue sources:

- Museum facility and equipment rentals,
- Art piece loan fees,
- Monthly 3rd Thursdays social mixers held at the Museum,
- Instructional classes for individuals of all ages,
- Annual membership dues,
- Museum Store sales,
- Museum donations,
- Endowments,
- Texas Commission on the Arts (TCA) grants and other various grants applied for and received by the Museum for various programs,
- And other various Museum programs and projects,

SCOPE AND METHODOLOGY

The audit objectives of this engagement were to assist senior management in improving their internal control environment. A review of the Museum's governance, controls, and financial systems regarding the safeguarding of assets was conducted. A review and evaluation was conducted of the Museum's financial transactions in the areas listed below:

- Petty Cash,
- Memberships,
- Museum Classes,
- Museum Store,
- Donations,
- Revenues from the 3rd Thursdays' Events,
- And any other revenue deposits listed on monthly Museum Revenue Reports.

The audit period covered all transactions occurring between the period of January 1, 2007 to January 21, 2009.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an “Other Finding”.

Finding 1

El Paso Museum of Art Foundation

The El Paso Museum of Art is handling financial transactions for the El Paso Museum of Art Foundation.

- The El Paso Museum of Art Revenue Reports lists both Museum and Foundation revenues.
- The El Paso Museum of Art employees are handling financial transactions for the El Paso Museum of Art Foundation.
- Museum of Art funds have mistakenly been deposited into the Foundation account and vice versa.

Recommendation

The financial transactions of the El Paso Museum of Art Foundation should not be handled by the El Paso Museum of Art and/or the Museum and Cultural Affairs Department.

Management’s Response

The El Paso Museum of Art Foundation will transfer all financial responsibilities of depositing and tracking revenue to the Treasurer of the Board.

Responsible Party

Michael A. Tomor, Ph.D., Director

Implementation Date

July 1, 2009

Finding 2

Segregation of Duties

- An internal control weakness was identified whereby a former Senior Secretary had access to make changes to the Revenue Reports. The Senior Secretary had custody of the Museum cash/checks, prepared the bank deposit slips, and physically made the bank deposits.
- The Senior Secretary had access to the Museum of Art Director's computer password.

Recommendation

- The function of preparing the bank deposits and having access to the Museum of Art Revenue Reports should be separated to ensure proper internal control.
- Access to the Director's computer should be limited to the El Paso Museum of Art Director only.

Management's Response

The Revenue Reports have always been generated by someone other than the Senior Secretary and the person preparing the bank deposits. Access to those reports are now "Read Only" and password protected, and passwords are only shared among those who generate the Revenue Report, Director of the EPMA, and the MCAD Accountant. Access to the Director's Computer has always been limited to Outlook and access to Word. Access to Word is discontinued.

Responsible Party

Michael A. Tomor, Ph.D., Director, Museums, MCAD and Norma Huerta, Accountant, MCAD

Implementation Date

April 2009 – Already executed.

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Finding 3

Museum of Art Revenue Reports

There is no reconciliation process in place to identify if revenues are deposited and accurately allocated to the proper General Ledger account.

During the period of January 2007 to January 2009 we identified a total of \$20,603.19 in cash and checks that were listed on the Revenue Reports that could not be traced into the Museum of Art's bank account.

Category	Total Amount on Revenue Report by Category
Art Classes	\$2,255.50
Development events	\$2,768.69
Donations	\$6,177.00
Memberships	\$7,990.00
3 rd Thursdays	\$1,412.00
Total:	\$20,603.19

Recommendation

The Museum and Cultural Affairs Department, in conjunction with the El Paso Museum of Art, should reconcile museum revenues identified in the Museum of Art Revenue Reports to the proper General Ledger account.

Management's Response

Revenue Reports include those managed by Education, Development, and Office Administrator/Receptionist. All reports will be standardized by the MCAD Accountant to meet Best Practices in accounting and then reconciled against the proper City of El Paso Ledger accounts. Processes and procedures will be established and disciplinary action will be expected for failure to meet the proper accounting standards.

Responsible Party

Norma Huerta, Accountant, MCAD

Implementation Date

August 1, 2009

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Finding 4

Museum of Art Classes

Art Class revenues are maintained in two separate databases, both databases were found to be inaccurate:

- For the period of January 2007 to January 2009, the class log lists \$870.00 more in cash for art class revenue and \$2,551.00 less in checks that should have been collected versus what was reported on the Revenue Reports.
- For the period of January 2007 to January 2009, \$558.00 in class revenue was deposited that was not listed on the Revenue Reports.
- Payment type and date of payment are not always entered into the class log.
- When individuals do not attend a class their name and amount to be paid is not always removed.
- A reconciliation process is not performed between the two databases.

Recommendation

The Museum and Cultural Affairs Department, in conjunction with the El Paso Museum of Art, should ensure that reconciliations of museum revenues are conducted to ensure revenues are deposited in full.

Management's Response

Revenue Reports including those managed by Education for classes will be standardized by the MCAD Accountant to meet Best Practices in accounting and then reconciled against the proper City of El Paso Ledger accounts. Processes and procedures will be established and disciplinary action will be expected for failure to meet the proper accounting standards.

Responsible Party

Norma Huerta, Accountant, MCAD

Implementation Date

August 1, 2009

Finding 5

Memberships

Membership revenues are maintained in two separate databases, both databases were found to be inaccurate:

- For the period of January 2007 to January 2009, the membership databases listed \$4,666.00 more in membership revenue than what was reported on the Revenue Reports.
- Membership fee revenue is not being accurately and completely entered into the Revenue Reports. We identified the following types of errors:
 - Incorrect payment type,
 - Incorrect check number,
 - Incomplete membership information making it difficult to trace to a deposit,
 - Duplicate entries,
 - Omitted entries. For the period of January 2007 to January 2009, \$2,545.00 in membership fee revenue was deposited but not listed on the Revenue Reports.
- A reconciliation process is not performed between the two databases.

Recommendation

The Museum and Cultural Affairs Department, in conjunction with the El Paso Museum of Art, should ensure that reconciliations of museum revenues are conducted to ensure revenues are deposited in full.

Management's Response

Revenue Reports including those managed by Development in Tracking Membership will be standardized by the MCAD Accountant to meet Best Practices in accounting and then reconciled against the proper City of El Paso Ledger accounts. Processes and procedures will be established and disciplinary action will be expected for failure to meet the proper accounting standards.

Responsible Party

Norma Huerta, Accountant, MCAD

Implementation Date

August 1, 2009

Finding 6

3rd Thursdays

- The El Paso Museum of Art does not maintain adequate accounting records of the revenue generated by 3rd Thursdays' events.
 - Accounts receivable for 3rd Thursdays' fees are being maintained and not tracked.
 - There are delays in processing the 3rd Thursdays' credit card transactions. There is an indication that some credit card transactions may not have been processed.
- For the period of January 2007 to January 2009, a variance of \$2,412.00 was identified between the totals reported by the Museum of Art as revenue (\$19,060.00) and actual deposits (\$16,648.00).
- The El Paso Museum of Art has been hosting the 3rd Thursdays' events for three years without a liquor license from the Texas Alcoholic Beverage Commission (TABC). As of the date of this report, the El Paso Museum of Art has taken corrective action by hiring an outside catering service to sell alcohol at 3rd Thursdays' events.

Recommendation

The Museum and Cultural Affairs Department, in conjunction with the El Paso Museum of Art, should maintain adequate financial records of 3rd Thursdays' events. This to include income/expense analyses, accounts receivable tracking, and credit card transaction settlements. In addition, the Museum and Cultural Affairs Department should continue to ensure they are in full compliance with any TABC regulatory requirements for all of their events.

Management's Response

Revenue Reports including those managed by Development in tracking 3rd Thursdays will be standardized by the MCAD Accountant to meet Best Practices in accounting and then reconciled against the proper City of El Paso Ledger accounts. Processes and procedures will be established and disciplinary action will be expected for failure to meet the proper accounting standards.

Responsible Party

Norma Huerta, Accountant, MCAD

Implementation Date

August 1, 2009

Finding 7

Petty Cash

The El Paso Museum of Art Petty Cash Fund is not being administered in accordance with City of El Paso Petty Cash Manual:

- A Department/City Cashier Cash Advance Voucher PC-03 form is not being completed, submitted, and properly approved prior to an employee receiving a petty cash advance or reimbursement.
- The Departmental Petty Cash Replenishment Request PC-04 forms are not being properly approved prior to submission of petty cash replenishments to the City Cashier.
- Petty Cash fund expenditures exceeding \$100.00 are being split so that the individual expense amounts fall under \$100.00 dollars.
- The Petty Cash fund is being utilized to pay for travel expenses.
- Museum of Art Petty Cash replenishments are not properly posted to the correct department name by the City Cashier.

Recommendation

The Museum and Cultural Affairs Department should terminate its use of all petty cash funds. Procurement cards are available to use for small purchases.

Management's Response

All Petty Cash boxes will be eliminated as a means of purchasing and reimbursement. Procurement card training was conducted on May 27, 2009 to prepare for the business change. Change will be announced at MCAD area head meeting on June 8, 2009.

Responsible Party

Sean McGlynn, Director, MCAD

Implementation Date

June 30, 2009

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this internal audit, the El Paso Museum of Art Management, in conjunction with the Museum and Cultural Affairs Department Director, needs to improve its oversight over the handling of revenues. Consideration should be given to implementing the improved internal controls throughout the Museum and Cultural Affairs Department (MCAD). MCAD should also consider limiting staff involvement with independent foundation's financial transactions. MCAD should give consideration to hiring an experienced Accountant to handle the financial activity for the El Paso Museum of Art, Archeology, and History.

We wish to thank the Museum of Art, the Museum and Cultural Affairs Department, and the Financial Services Department management and staff for their assistance and courtesies throughout this audit.

Signature on File
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